

FREQUENTLY ASKED QUESTIONS (FAQ)
BANK INDONESIA REGULATION NUMBER 21/11/PBI/2019 ON
CENTRAL COUNTERPARTIES
FOR OVER-THE-COUNTER INTEREST RATE
AND EXCHANGE RATE DERIVATIVE TRANSACTIONS

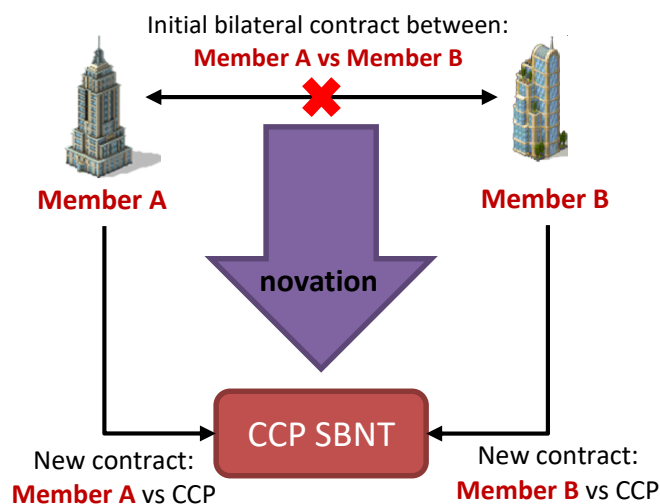
GENERAL

1. What is the objective of the issuance of this Bank Indonesia Regulation?

The objective of this regulation is to provide rule/guideline for parties who intends to establish a Central Counterparty for over-the-counter (OTC) interest rate and exchange rate derivative transactions in Indonesia.

2. What does Central Counterparty for Over-the-Counter Interest Rate and Exchange Rate Derivative Transaction mean?

Central Counterparty for Over-the-Counter Interest Rate and Exchange Rate Derivative Transaction means an institution that positions itself between parties conducting SBNT Derivative Transactions and acts as a buyer for the seller, vice versa, or also referred to as novation.



3. What is the objective of establishment of CCP SBNT?

It aims to improve risk management on derivative transactions in the OTC market, reduce interconnectedness between OTC derivative parties, increase transparency, and increase efficiency of derivative transactions through netting mechanism. The existence of CCP is also one of the efforts to increase financial system stability, accelerate the

process of developing and deepening the domestic financial market, and serve as a response to G20 recommendations, primarily related to OTC derivative market reform. There are 5 G20 recommendations on OTC derivative market reform produced in Pittsburgh, USA, in 2009 and in Cannes, France, in 2011 as follows:

- a. All standardized OTC derivative transactions must be traded on exchange or electronic platform (where possible);
 - b. All standardized OTC derivative transactions must be cleared through central counterparty (CCP);
 - c. All OTC derivative transactions must be reported through trade repository;
 - d. Any OTC derivative transactions uncleared through CCP must be subject to higher capital requirements;
 - e. Any OTC derivative transactions uncleared through CCP must be subject to higher margin requirements.
4. What is the function and role of the CCP SBNT on derivative transaction conducted between participants?

CCP has the functions and role as a clearing agency that takes over credit risks on OTC interest rate and exchange rate transactions conducted by members of the CCP through novation process, and executes clearing by netting mechanism for exposure of the transaction.

LICENSE FOR CCP SBNT

5. What are the requirements to become a CCP SBNT?

Any party that carries on business activities as a CCP SBNT is required to obtain a license from Bank Indonesia. The party that submits a license application to become a CCP SBNT must meet the following requirements:

- a. it is a limited liability company with at least 1 (one) independent commissioner and 1 (one) director of CCP SBNT;
- b. it meets the minimum capital of Rp400,000,000,000.00 (four hundred billion rupiah) in phases;
- c. it meets share ownership composition with maximum ownership by a foreign citizen and/or legal person of 49% (forty-nine percent) of the paid-up capital; and it has reliable and safe infrastructures, namely clearing system, data center, and disaster recovery center.

6. What are the steps to obtain the license as CCP SBNT?

Bank Indonesia grants license for CCP SBNT in the following 2 (two) steps:

- a. principle approval; and
- b. operating license.

7. What are the requirements to obtain principle approval as CCP SBNT from Bank Indonesia?

To obtain a principle approval, the application shall be submitted by one of the members of the board of directors in writing to Bank Indonesia by fulfilling the following requirements:

- a. has a deed of incorporation including articles of association which have been approved by the authorized institution;
- b. has paid-up capital in a minimum amount of 50% (fifty percent) of the minimum capital;
- c. has a share ownership structure;
- d. has at least 1 (one) independent commissioner;
- e. has at least 1 (one) director for CCP SBNT;
- f. has an organization structure and human resource plan;
- g. has a business plan for the first 3 (three) years;
- h. has a long-term strategic corporate plan;
- i. has a concept of risk management guideline, internal control system plan, information technology system plan, and guideline for governance implementation;
- j. has work system and procedure; and
- k. meets any other administrative requirements determined by Bank Indonesia.

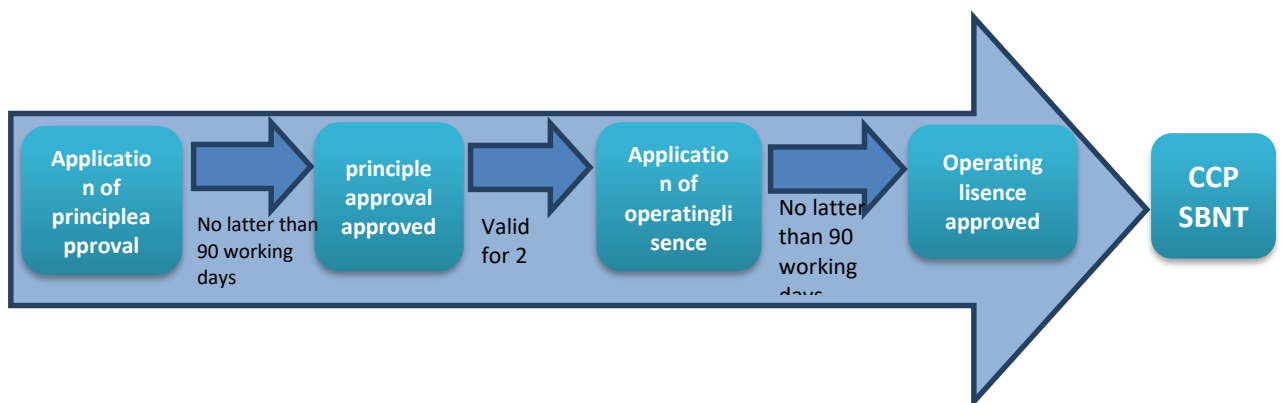
8. What are the requirements to obtain an operating license as CCP SBNT from Bank Indonesia?

To obtain an operational approval, the application shall be submitted by one of the members of the board of directors in writing to Bank Indonesia by fulfilling the following requirements:

- a. has a valid principal approval from Bank Indonesia;
- b. has the minimum capital of Rp400,000,000,000.00 (four hundred billion rupiah);
- c. has a draft rule book on CCP SBNT;

- d. has operational readiness evidence;
 - e. has articles of incorporation containing:
 - 1) requirements that appointment of an independent commissioner and director of CCP SBNT must obtain the prior approval of Bank Indonesia; and
 - 2) has an organization structure containing composition of the board of commissioners and board of directors, which at least consists of 1 (one) independent commissioner and 1 (one) director of CCP SBNT;
 - f. fulfils the requirements for integrity, competency, and/or financial aspect for independent commissioner and director of CCP SBNT; and
 - g. has share ownership data and supporting documents in the event of amendment.
9. How long is the process from principle I approval and operating license until CCP SBNT is permitted to conduct its activities?

A principal approval will be granted no later than 90 working days upon complete and appropriate receipt of application documents. A principal approval will be valid for 2 (two) years as from the principal approval issuance date. Prior to expiry of the 2-year period, Bank Indonesia shall have received an operating license application. An operating license application will be granted no later than 90 working days upon complete and appropriate receipt of application documents.



10. How long is the operating license validity and what are the obligations of CCP SBNT upon obtaining its operating license?

Any party who has obtained an operating license for CCP SBNT must carry on its business activities no later than 60 (sixty) working days as from the operating license issuance date. If, after such period, a CCP SBNT has not carried on any business activity, the operating license issued by Bank Indonesia will be declared invalid.

DUTIES, AUTHORITY, AND OBLIGATIONS OF CCP SBNT

11. What are the duties of CCP SBNT in performing its functions?

In performing its functions, a CCP SBNT has the following duties:

- a. make Novation of a contract for SBNT Derivative Transactions between Members;
- b. Clearing of SBNT Derivative Transactions in a multilateral manner;
- c. manage risks by determining a standard operating procedure for risk management;
- d. administer Member's SBNT Derivative Transaction portfolios in an accurate, punctual, consistent, and transparent manner;
- e. administer Default Fund Contribution, Initial Margin, and Variation Margin;
- f. prepare and develop a rule book on CCP SBNT applicable to Members;
- g. interconnect with Financial Market Infrastructures and/or market operators; and
- h. conduct regular monitoring, evaluation, and control of SBNT Derivative Transaction portfolios.

12. What are the authorities of CCP SBNT in performing its duties?

In performing its duties, a CCP SBNT has the following authority:

- a. approve, reject, and dismiss a Member;
- b. impose sanctions to a Member;
- c. determine the amount of Default Fund Contribution, Initial Margin, Variation Margin, and cost;
- d. determine valuation method of Initial Margin and Variation Margin submitted by a Member;
- e. manage Default Fund Contribution, Initial Margin, and Variation Margin in accordance with the criteria and requirements determined by Bank Indonesia;
- f. execute Default Fund Contribution, Initial Margin, and Variation Margin in the event of a Member default;
- g. apply close-out netting, early termination, and auction against transactions of the defaulting Member ; and
- h. prepare and determine a rule book on CCP SBNT.

13. What are the obligations of the SBNT CCP in carrying out its business activities?

In carrying out its business activities, a CCP SBNT is required to:

- a. have clear and transparent corporate governance, which meets the principles of safety, efficiency and supports financial system stability;
- b. apply the prudential principle, at least consisting of business ethics guideline as CCP SBNT or other similar guidelines; transparency and information openness; dispute resolution mechanism; and consumer protection.
- c. apply effective risk management at least containing sufficient risk management framework, disaster recovery plan, communication network which meets the principles of confidentiality, integrity, and availability, and information technology risk management.

In addition, in carrying out its business activities, a CCP SBNT must consider and meet the Principles of Financial Market Infrastructure (PFMI) as issued by the Committee on Payment and Settlement Systems Bank for International Settlements (BIS) and International Organization of Securities Commissions (IOSCO).

RISK MANAGEMENT ON CCP SBNT

14. What are the risks mandatorily managed and effectively applied by CCP SBNT?

CCP for IRER must effectively apply risk management on risks as follows:

- a. credit risk,
- b. liquidity risk,
- c. business risk,
- d. custody risk,
- e. investment risk, and
- f. operational risk.

15. What are the obligations of CCP SBNT in order to apply credit risk management?

In credit risk mitigation, CCP SBNT shall at least apply the following:

- a. identifying, measuring, monitoring, and managing credit risk;
- b. having sufficient procedure and mechanism for default waterfall in the event of a Member's default;
- c. allocating certain percentage of the capital of CCP SBNT as part of default waterfall;

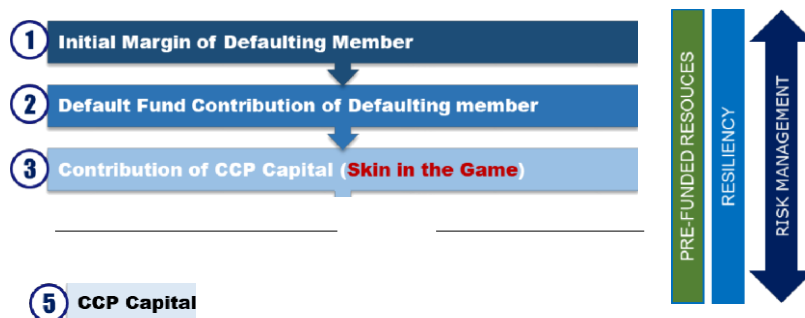
- d. maintaining sufficient financial resources to meet liquidity needs on credit exposure to each Member;
- e. requesting Initial Margin and Variation Margin in the form of fund and/or high quality securities;
- f. applying valuation and haircuts method on Initial Margin and Variation Margin in the form of securities based on the prudential principle;
- g. applying concentration limit for Initial Margin and Variation Margin in the form of securities; and

Applying effective Initial Margin and Variation margin system.

16. What does default waterfall mean?

It is financial safeguard which may be used by CCP in certain agreed order of use to cover any loss potentially arising from one or more defaulting member for systemic risk mitigation.

- Default Fund Contribution of Non-Defaulting members



- Assessments/unfunded default fund contributions

RECOVERY REGIME (VMGH & IMH)

RECOVERY &
RESOLUTION

Remarks: VMGH: Variation Margin Gain Haircut; IMH: Initial Margin Haircut.

17. What does initial margin and variation margin mean?

Initial Margin means funds and/or securities deposited by a Member when it aims to make an SBNT Derivative Transaction to mitigate potential change of the Member's position in the event of default.

Variation Margin means funds and/or securities deposited by a Member on exposures arising from the changing mark-to-market value in an SBNT Derivative Transaction.

18. What are the obligations of CCP SBNT in order to mitigate potential liquidity risks?

To mitigate potential liquidity risk, CCP SBNT must:

- a. identifying, measuring, monitoring, and managing liquidity risk;
- b. maintaining sufficient liquidity to effect settlements ; and
- c. conducting stress test periodically.

MEMBERS OF CCP SBNT

19. Who can become a member of CCP SBNT?

- a. A Member of CCP SBNT must be a direct Clearing member consisting of:
 - 1) general Clearing Member; and
 - 2) individual Clearing Member.
- b. A general Clearing Member shall be a Bank which may act for its own interest and/or on behalf of its customers.
- c. An individual Clearing Member in the form of Bank may act for its own interest.
- d. A customer constitutes indirect Clearing Member which may take the following form:
 - 1) Bank;
 - 2) non-Bank financial institution; and
 - 3) any other parties to the extent they are not in contravention of the laws and regulations.

REPORTING

20. What reports must CCP SBNT submit to Bank Indonesia?

Mandatory reports to be submitted by CCP SBNT among others are:

Periodic reports:

- a. daily and monthly operational reports on SBNT Derivative Transactions;
- b. quarterly and annually financial reports;
- c. annual general meeting reports;
- d. stress test report; and

- e. annual evaluation reports on compliance with the Principles for Financial Market Infrastructures.

Incidental reports:

- a. Member's default reports;
- b. extraordinary general meeting reports;
- c. reports on change of membership of CCP SBNT;
- d. reports on imposition of sanctions by CCP SBNT to Member(s);
- e. reports on special events;
- f. reports on opening of additional services for Member with the approval of the relevant authority; and
- g. any other reports determined by Bank Indonesia

